

DEPARTMENT OF STATE REVENUE

LETTER OF FINDINGS NUMBER: 95-0460 ST
Sales and Use Tax
For The Tax Periods: 1992 through 1994

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ISSUE

Sales/Use Tax – Manufacturing Equipment Exemption: Bandsaw Blade Sharpener and Bandsaw Blade Leveler.

Authority: IC 6-2.5-5-3, 45 IAC 2.2-5-8, *Rotation Products Corp. v. Department of State Revenue* 690 N.E.2d. 795 (Ind.Tax 1998)

Taxpayer protests the assessment of sales/use tax on bandsaw blade sharpener and bandsaw blade leveler.

STATEMENT OF FACTS

Taxpayer is a sawmill who is also engaged in the business of custom sawing and drying of hardwoods. Taxpayer's sales are handled in-house; products are delivered using their own trucks. Taxpayer's customers are generally wholesalers, furniture companies and cabinet makers. During the manufacturing process, bandsaw blades are removed from bandsaws. The blades are filed and sharpened by a bandsaw blade sharpener; the blades are also leveled and smoothed by a bandsaw blade leveler.

DISCUSSION

Pursuant to IC 6-2.5-2-1, a sales tax, known as state gross retail tax, is imposed on retail transactions made in Indiana. IC 6-2.5-4-1 provides that a retail transaction involves the transfer of tangible personal property. Pursuant to IC 6-2.5-3-2, "an excise tax, known as the use tax, is imposed on the storage, use, or consumption of tangible personal property in Indiana if the

property was acquired in a retail transaction, regardless of the location of that transaction or of the retail merchant making that transaction.”

Taxpayer purchased the bandsaw blade sharpener and bandsaw blade leveler for use in the operation of his sawmill. This equipment is used in the normal maintenance of bandsaw blades that are used in the taxpayer’s production process. This equipment is tangible personal property and subject to Indiana sales and use tax.

Pursuant to IC 6-2.5-5-3(b), transactions involving manufacturing machinery, tools, and equipment are exempt from the state gross retail tax if the person acquiring that property acquires it for direct use in the direct production, manufacture, fabrication, assembly, extraction, mining, processing, refining, or finishing of other tangible personal property. Taxpayer argues that the bandsaw blade sharpener and leveler are used in direct production. Taxpayer contends that this equipment is essential and an integral part of the production process.

The equipment, at issue in this protest, is necessary to maintain the bandsaw blades that saw wood; the equipment does not essentially have an immediate effect on the product being produced. Pursuant to 45 IAC 2.2-5-8 (h), maintenance and replacement equipment is not exempted by the manufacturing exemption. 45 IAC 2.2-5-8 (h) states that machinery, tools and equipment used in the normal repair and maintenance of machinery used in the production process which are predominantly used to maintain production machinery are subject to tax. Taxpayer’s bandsaw blades are directly used in direct production; the blade leveler and blade sharpener are used to maintain this production equipment.

Taxpayer argues further that the bandsaw blade leveler and the bandsaw blade sharpener manufacture the bandsaw blades each time they are sharpened and leveled. Taxpayer argues that in essence a new blade is manufactured each time the blade is sharpened and leveled; the blade is made thinner and smaller. However, taxpayer is not engaged in the business of manufacturing bandsaw blades. In addition, if the taxpayer were engaged in the manufacturing of bandsaw blades, the sharpener and leveler would still not be exempt from sales and use tax. The Indiana Tax Court held, in *Rotation Products Corp. v. Department of State Revenue* 690 N.E.2d. 795 (Ind.Tax 1998), that a factor in determining a manufacturing exemption is whether the work performed is contemplated as a normal part of the life cycle of the existing article. Bandsaw blades are purchased and used in the production process with the expectation that a normal part of their life cycle will include sharpening and leveling. The work done by the bandsaw blade sharpener and leveler is contemplated as a normal part of the lifecycle. The leveler and sharpener are, therefore, subject to tax.

FINDING

Taxpayer’s protest is denied.